Committee on Ways and Means

H.R. 5638, *the Permanent Estate Tax Relief Act of 2006*, as amended

Bill Summary

Permanent Estate and Gift Tax Relief

- The estate tax relief provided in the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) will end in 2010. Unless Congress acts, in 2011 the estate tax exemption will drop to $1 million per person and the maximum estate tax rate will increase to 55 percent. The *Permanent Estate Tax Relief Act of 2006* would provide **permanent** estate and gift tax relief.

Unified Estate, Gift and Generation-Skipping Transfer Tax

- The *Permanent Estate Tax Relief Act of 2006* would reunify the estate, gift and generation-skipping transfer taxes – giving individuals greater flexibility to make estate planning decisions during life. A non-unified estate and gift tax provides less favorable tax treatment for gifts made during lifetime than gifts made (through a will) at death.

Increased Estate and Gift Tax Exemption

- The *Permanent Estate Tax Relief Act of 2006* would increase the exemption amount to $5 million per person (indexed for inflation) effective January 1, 2010.

Lower Estate and Gift Tax Rates

- The *Permanent Estate Tax Relief Act of 2006* would reduce the rate of tax on estates up to $25 million to the capital gains tax rate (currently 15 percent, set to increase to 20 percent in 2011 unless extended).

- The bill would reduce the rate of tax on estates of $25 million or more to twice the capital gains rate (currently 30 percent, set to increase to 40 percent in 2011 unless extended).

Portable Spousal Estate and Gift Tax Exclusion Amount

- The *Permanent Estate Tax Relief Act of 2006* would simplify estate tax planning by allowing married couples to take full advantage of the $5 million exemption (indexed for inflation) by carrying over any unused exemption to the surviving spouse.

Guarantees "Stepped-Up" Basis

- The *Permanent Estate Tax Relief Act of 2006* maintains "stepped-up" basis for property acquired from a decedent by repealing the modified carryover basis rules under EGTRRA that would have gone into effect in 2010.

Tax Provision

- The provision creates a new 60 percent deduction for qualified timber capital gains. This deduction alleviates the disparate tax treatment of timber gains under current law (which is based upon the legal form of ownership of the underlying timber assets). The provision is effective for qualifying gains recognized from the date of enactment through calendar year 2008.